

VZCZCXRO9888

PP RUEHCHI RUEHKF RUEHHM RUEHKS0 RUEHNAG RUEHPB

DE RUEHHI #1366/01 2150724

ZNR UUUUU ZZH

P 030724Z AUG 07

FM AMEMBASSY HANOI

TO RUEHC/SECSTATE WASHDC PRIORITY 5980

INFO RUEHHM/AMCONSUL HO CHI MINH 3446

RUEHGP/AMEMBASSY SINGAPORE 2422

RUEATRS/DEPT OF TREASURY WASHINGTON DC

RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION

UNCLAS SECTION 01 OF 02 HANOI 001366

SIPDIS

STATE FOR EB/OMA AND EAP/MLS

TREASURY FOR OASIA

SINGAPORE FOR REGIONAL TREASURY ATTACHE BAKER

STATE PASS FEDERAL RESERVE SAN FRANCISCO FOR DFINEMAN

SENSITIVE BUT UNCLASSIFIED

SIPDIS

E.O. 12958: N/A

TAGS: EFIN ECON EAID VM

SUBJECT: AMBASSADOR'S FAREWELL CALL ON STATE BANK GOVERNOR THUY

HANOI 00001366 001.2 OF 002

(U) THIS CABLE IS SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET.

¶11. (SBU) Summary: The Ambassador met with State Bank Governor Le Duc Thuy as part of his farewell calls. The meeting covered a wide range of issues, including money laundering, anti-proliferation efforts, the stock market, equitization, inflation, the exchange rate, and areas for further cooperation. It is clear that State Bank officials are beginning to feel the pressures of a developing economy, but they have not yet addressed how to reconcile inflationary pressures with an intentionally undervalued currency. End Summary.

Anti Money Laundering

¶12. (SBU) The Ambassador met with State Bank Governor Le Duc Thuy on July 31 for a farewell call. After initial greetings, the Ambassador raised the issue of anti money laundering (AML), noting that Vietnam's attendance at the Asia Pacific Group meeting in Perth was very encouraging. He cited the large amount of remittances from the United States to Vietnam last year, approximately 4.7 billion USD, and stressed the mutual need to be confident in AML safeguards.

Ambassador Marine added that the U.S. Department of Treasury's Technical Assistance Office was planning an assessment of Vietnam's AML regime this fall, but to do so it would help to have a formal indication that the Vietnamese wish to engage on this matter.

¶13. (SBU) Governor Thuy responded by acknowledging U.S. assistance in this area and admitting that the Vietnamese AML decree could be better. He also noted that last month the State Bank of Vietnam (SBV) established the Anti Money Laundering Information Center as an independent organization. The Governor explained that they were now working on setting up the organization and initiating the operations of the new entity. He said that they still lack equipment/facilities to work effectively, so the SBV welcomes support and training from the United States. The SBV will seriously consider Treasury's technical assistance offer and will make a report to the competent authorities for a decision. He clarified that the formal request will come from either the SBV or from the Government of Vietnam itself.

Non Proliferation

¶14. (SBU) On a related issue, the Ambassador reminded the Governor that, when they last met, the Ambassador had mentioned the propensity of North Korea to finance proliferation activities using

financial institutions in the region. He noted that it has become evident that Vietnam is likely to be on the UN Security Council and therefore directly involved in directing policy on North Korea and other global security issues, but for now, the United States is very interested in how Vietnam is implementing UNSCR 1695 and 1718.

¶15. (SBU) The Governor responded by stating that Vietnam is a member of the UN and has complied with the resolutions on North Korea. However, he said that, because of limited information and accessibility, the SBV would welcome any information from the United States about suspicious or problematic activity.

The Stock Market and Equitization

¶16. (SBU) The Ambassador then turned to the stock market and the ongoing equitization process. He complimented the Governor on Vietnam's economic growth, noting that the recent decision to avoid capital controls was illustrative of a sage, long-term viewpoint. However, the Ambassador continued, there was some talk that the IPO process was going to be delayed due to the recent downturn in the Vietnamese stock market. He pointed out that some would take this as wavering dedication to the equitization process, and that perhaps an equitization/privatization plan could be shared with the public in an effort to assuage those concerns.

¶17. (SBU) Governor Thuy was quick to disavow any official plan to delay the equitization timeline. He stated that the IPO timeline for the commercial banks is proceeding and that there has been no statement from the Cabinet that it should be delayed. Any opinions to the contrary were merely "informal." He agreed that the equitization plan for other enterprises had not been completely transparent, but that the SBV was working with the Ministry of Finance to provide a clear roadmap for the bank IPOs. The Governor was also frank about the general sense of confusion regarding which direction the stock market was heading, but stated that the GVN would not allow the market to impact negatively the stable economic

HANOI 00001366 002.2 OF 002

development of Vietnam.

Inflation and Currency

¶18. (SBU) The Ambassador linked the equitization process to the larger macro-economic picture, making it clear that there was concern in some camps about inflation and credit growth in the Vietnamese economy. He noted that as the economy continues to develop, the policy of targeted interest and exchange rates would be difficult to maintain. Specifically, the Ambassador noted that we were interested in knowing whether Vietnam would display any flexibility with its currency, which would help to control inflation.

¶19. (SBU) The Governor took the "party line" and explained that, in the short term, inflation was due to a number of causes, including avian flu, natural disasters and higher energy prices. He did admit that, for the long term, inflation posed a question of monetary policy; specifically, how to regulate capital inflows while creating a flexible exchange rate and strengthening reserves. He stated that Vietnam knows it does not want to "chase" too much foreign currency, but that Vietnam has to keep the value of the dong close to its actual buying power. In other words, he clarified, the nominal and real exchange rates are currently similar and the SBV did not want them to drift too far apart. He then reiterated that the main reason for inflation in 2007 was the external forces listed above, but that Vietnam did want to find a way to ensure that the exchange rate was not contributing to inflation.

Past and Future Cooperation

¶110. (SBU) Both the Ambassador and the Governor acknowledged the strong working relationship between USAID's Support for Trade Acceleration (STAR) program, which provides technical assistance as Vietnam upgrades its economic governance legislation, and the State

Bank. The Ambassador said that the United States welcomed the opportunity to provide comments and suggestions as Vietnam moved forward in creating a new central banking system. Governor Thuy thanked the Ambassador, stating that the SBV would make good use of the information it had received through technical assistance. He noted that, in accordance with Vietnam's situation, it was unlikely that they would have a very powerful central bank like the U.S. Federal Reserve. He went on to outline several areas where he thought the SBV could use additional assistance, including how to have healthy growth in the stock market, how to control capital inflows, and the most appropriate role for the State Bank in the stock market.

Comment

¶11. (SBU) Governor Thuy mostly stuck to the party line, but was frank in describing the challenges facing the State Bank. We are hopeful that this meeting will bring about some movement on the formal request necessary for AML technical assistance. The overall relationship to date between the Embassy and the SBV has been a positive one. The Governor would clearly welcome additional technical assistance on the development of the central banking system in Vietnam and wants to maintain the momentum on this positive track. The Governor did not discuss his impending departure from office, or the criticism directed at his family with regard to corruption allegations (nor did we ask). Subsequent to our meeting, the GVN announced the new Governor will be Nguyen Van Giay, currently the Party General Secretary of Ninh Thuuan Province; prior to that position, he was the Deputy Governor of SBV.

MARINE